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Agricultural Situation

Agribusiness Report - December-January 2001

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Report Highlights:

New Zealand Dairy Group Lifts New Milk Moratorium

The Proposed Dairy Merger

Late Frost Damages Grapevines

Government Orders Ceasing of Native Logging

GM Calves Born

Includes PSD changes: No

Includes Trade Matrix: No

Unscheduled Report

Wellington [NZ1], NZ

DAIRY AND PRODUCTS***New Milk Product Boosts NZ Market Share in Malaysia***

PROLENE, the New Zealand Dairy Board's latest product to be launched in Malaysia, is reportedly set to boost the organisation's share of the Southeast Asian country's milk powder market by 10 percent. Following the success of leading brands ANLENE, FERNLEAF and ANMUM, the low fat high calcium milk PROLENE fills a gap in the market to target 20-35 year old active, health conscious women. The New Zealand Dairy Board expects that ANLENE and PROLENE together could lift NEW ZEALAND MILK'S (the consumer business of the Dairy Board) share of the NZ\$50 million low fat milk powder category by up to 80 percent.

New Zealand Dairy Group Lifts Stake in Australia

New Zealand Dairy Group, New Zealand's largest dairy co-operative, has spent NZ\$100 million (US\$43 million) lifting its stake in listed Australian dairy foods company National Foods to almost 15 percent. The co-operative bought 7 percent in October and on January 24 announced it had acquired a further 22 million shares this week, taking its shareholding to 14.9 percent. Dairy Group has also agreed to buy a further 9.23 million shares, which would take its stake to 18 percent. This is subject to getting the approval of Australia's Foreign Investment Review Board. The co-operative reports that there was no plan for a full bid for National Foods.

New Zealand Dairy Group Lifts New Milk Moratorium

In March 2000, New Zealand placed a moratorium on new milk supply, in order to prevent over capacity for their milk processing plants. In late December the moratorium was lifted following a shareholder agreement to a new system of financing peak milk processing. Farmers who boost supply, whether increasing production from an existing farm or by starting a new unit, will pay NZ\$30 for each litre above their historical peak. New shareholders, with no record of supply, will pay for every litre they produce in addition to buying shares in the company at \$2 per kilogram of milksolids. The company has accepted 147 new suppliers on the lifting of the moratorium, all but four of these were from the South Island.

New Lactose Plant Planned

The New Zealand Dairy Group has announced it will build a NZ\$25 million (US\$11 million) lactose processing plant in the South Island. The plant will enable the co-operative to produce 15,000 tonnes of lactose which is fetching about NZ\$1,100 (US\$473) per tonne on the international market.

Dairy Board Wants Organic Milk

The New Zealand Dairy Board is seeking 1 million litres of organic milk for its scheme to export organic milk products. The Board's organic milk manager said the strongest markets appeared to be in Europe, USA and Japan. In order for it to be cost-effective to produce organic milk products in New Zealand for the global market, a critical volume of at least 1 million litres at the peak of the season would be needed. This equated to the production from about 260 farms, which would need to be reasonably close together.

GlobalCo- The Proposed Dairy Merger

GlobalCo, the proposed merger of the New Zealand dairy industry has announced another commercial incentive that should aid its formation. When first proposed GlobalCo was

conditional on shareholder approval, the valuation of the companies and Government approval (see NZ1002 for further details). An international consultancy agency was hired to make valuations of the two dairy companies in the merger, New Zealand Dairy Group and Kiwi Dairies. This valuation has been completed, and the firm put the value differential between the two companies at less than 20 cents a kilogram of milksolids. If the valuation had been between 20-50 cents, the lower valued company would have had to pay a differential compensatory payment to the other's shareholders. If the valuation had been 50 cents or more, the merger would have been called off. At less than 20 cents, as it has been valued, neither company have to pay compensatory payments.

In a letter to dairy industry leaders the Government announced it is uncomfortable with the dairy industry's mega-merger plan in four key public policy areas where a fair market could be threatened. The Government is reluctant to exempt such a big merger from Commerce Commission scrutiny as the industry wants. However, the Government would consider asking Parliament, and not the Commerce Commission to approve the formation of GlobalCo if its public policy concerns were satisfied. Features of the plan that appeared inconsistent with a fair market environment are:

- the allocation of all tariff quota to the proposed GlobalCo in perpetuity;
- inexplicit proposals for fair-value entry and exit from GlobalCo;
- the lack of a plan for unbundling milk and equity returns, and the implications of this for valuing GlobalCo and establishing a fair price for raw milk; and
- the potential for GlobalCo to impede a divested Dairy Foods domestic market company from growing and competing because of conditions on its milk supply.

The Government and the industry resolved this week to form a working party to look at the public policy issues.

LIVESTOCK & PRODUCTS

BSE Impact Showing

New Zealand lamb exports may be starting to pick up some spin-off benefit from the BSE crisis in Europe. Although New Zealand is limited to a 225,000 tonne export lamb quota to Europe, meat exporter, Richmond Ltd, is reporting an increase in demand for lamb in Britain, Belgium, Holland and Germany, with prices rising by up to ten percent. Industry officials say this is a direct result of consumers' concerns about European beef. They report that New Zealand now has a unique opportunity to promote the nutritional and health attributes of New Zealand lamb in markets where there had been little niche interest.

HORTICULTURE

Apple Decision Delayed

At the last minute, Biosecurity Australia has delayed a decision on New Zealand's long-running bid to get apples into the Australian market (see NZ1001 for further details). On 20 December, the authority extended for another 2 months (to February 28) public comment on its plans to allow the importation of New Zealand apples under extraordinarily strict quarantine conditions. Officials said the reason for the delay was the amount of public interest, with more than 100 submissions received on the draft import risk analysis.

27% Rise for Horticulture Exports

A recent publication by the New Zealand Ministry of Agriculture and Forestry is forecasting a 27 percent increase in horticulture exports by 2005, from NZ\$1.76 billion (US\$756 million) now to NZ\$2.23 billion (US\$958 million). The increase will be driven by a 13 percent rise in kiwifruit earnings, a 14 percent rise in fresh vegetable exports and a 116 percent rise in export sales of processed fruit.

Apple Juicer Planned

A multi-million dollar apple juicing plant is to be built in Hawkes Bay by a company called Profruit. Profruit is converting a former factory into a facility with the capacity to juice up to 40,000 tonnes of second-grade apples for the American market and to juice other fruits, including grapes and stonefruits. Profruit is also looking at other export opportunities.

McCain Expansion Under Way

McCain Foods, a large vegetable processing company, is investing NZ\$18 million (US\$8 million) on expansion of one of its current plants in the South Island. The project includes a rail spur, a coldstore offering nearly two million cubic feet of storage, and an upgrade to the vegetable mixing and packing facilities. Other work, already underway, includes installation of a sprinkler system, an upgrade of the french fry production line and a new potato store.

WINE**Late Frost Damages Grapevines**

A freak frost, with temperatures of minus 4 degrees Celsius, selectively attacked Hawkes Bay (NZ's second largest wine producing region) vineyards in November, reducing many flowering grapevines to ruins. Ten of the country's premium wine produces have lost most of their current grape crops. The frost, the most severe in November for more than 20 years, will cost some wineries millions of dollars in lost revenue and is expected to reduce Hawke's Bay's wine production by at least 10 percent this year. Wineries have already been forced to lay off workers and summer employment is also expected to fall.

Pinot Noir New Zealand 2001 Event

A Pinot Noir Event was held from January 25-28 in Wellington, drawing wines and winemakers from 70 producers. Leading speakers and panelists participated from the UK, US, France, Australia and New Zealand. Formal tastings of Pinot Noir were featured from New Zealand and around the world. The event highlighted New Zealand's growing prominence in the world of quality Pinot Noir wines. New Zealand's Pinot Noir plantings and exports (from a small base) have grown rapidly over the past several years. Pinot Noir is New Zealand's leading red grape varietal, with about 1,800 hectares planted. See NZ0029 for more information on New Zealand's wine industry.

BIOTECHNOLOGY**GM Calves**

The first genetically modified calves in New Zealand have been born at a research centre in Hamilton. The 6 Friesian calves have been genetically modified with extra casein genes to change the composition of their milk as adults. They were all cloned from the cells of one cow. Another batch of calves with modified casein genes is due in late February. The research may be

useful in creating high-protein, high-calcium milk.

ANZFA Releases First Novel Food Safety Assessment

The Australia New Zealand Food Authority (ANZFA) has released its safety assessment of phytosterol esters, the first ingredient to be considered under the new Novel Food Standard (A19). Phytosterol esters are currently being added to two brands of table spreads as well as a number of other products. Manufacturers claim that phytosterols reduce the absorption of cholesterol from the diet. ANZFA is proposing that at this stage phytosterol esters be permitted in table spreads only at the currently used levels where the safety has been adequately demonstrated. ANZFA is also proposing to require labelling statements, primarily indicating that products containing phytosterol esters are not suitable for some subgroups in the community.

BIOSECURITY

New Biosecurity Measures

Primary industries at risk from pest and disease invasions are pleased at new biosecurity measures announced by the New Zealand Government. The NZ\$2.75 million (US\$1.18 million) package includes funding for an import risk analysis on shipping containers and investigating ways of detecting suspect containers and decontaminating them. There will also be a full review of surveillance programmes with special focus on Argentine ants, wood boring insects and specific pests and diseases that threaten wildlife. Almost half of the new funding will be spent on a public awareness programme. Agricultural, horticultural and forestry interests are supporting in particular the moves to beef up container inspections, one of the most criticised areas of biosecurity.

FORESTRY

Government Orders Ceasing of Native Logging

Timberlands West Coast logging, has been formally instructed to cease native timber logging by the Ministry of Forestry. Legislation was passed in October 2000, scrapping the 1986 West Coast Accord that gave permission to log native forestry, and clearing the way to end the logging of Crown-managed West Coast native forests. Timberlands has been directed by the Government to amend its statement of corporate intent to exclude native timber logging and other management of the Crown's West Coast native forests from 1 April, 2002.

GENERAL

Business Deal with India

The New Zealand Minister for Trade Negotiations has high hopes for the establishment of a new production and processing industry based in the South Island. It would involve a new processing plant, creating about 100 jobs and producing products for the huge Indian market. The product was based on a farm crop already familiar to New Zealanders. No further details have been released.

ANZFA Approves Joint Food Code

ANZFA has approved a new joint Australia New Zealand food code that will be phased in over two years. The code will require mandatory nutrition information panels, and its percentage labelling requirements for ingredients. For more details see the ANZFA website at

www.anzfa.govt.nz